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RUEHDN/AMCONSUL SYDNEY 4859
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UNCLAS SECTION 01 OF 02 CANBERRA 000755

SENSITIVE
SIPDIS

DEPARTMENT FOR EAP/ANP, EEB/TRA

E.O. 12958: N/A

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SUBJECT: QANTAS FEELING IMPACT BUT WEATHERING ECONOMIC
DOWNTURN

¶1. (SBU) SUMMARY: Though Qantas definitely felt the effect of the global financial crisis, the Australian national carrier appears to have weathered through it better than most in the airline industry. The company should post between USD80 to 160 million in profit for the year ending June 30, ¶2009. In the short term, the company is paying close attention to several issues that may also be of interest to the airline industry. End summary.

¶2. (SBU) Econoff met with Qantas' Head of Government and International Relations Jane McKeon on August 11. McKeon spoke about the state of the airline industry, Qantas' financial performance, its response to the current economic environment, as well as issues of concern for the company going forward.

State of the industry

¶3. (SBU) McKeon said the effects of the slowdown in the world economy caused an unprecedented revenue environment for the airline industry, forecasted to lose USD 9 billion in 2009 and caused over 40 airlines to enter bankruptcy. The fall in consumer and business confidence caused airline job losses and reduced spending and investment. She mentioned that hedging against this year's high fuel-price volatility also prevented a full realisation of benefits.

State of Qantas

¶4. (SBU) McKeon gave a preview of Qantas' end-of-year results (30 June 2008-2009), which will first be announced on August ¶19. According to McKeon, profit before tax for the year was reviewed downwards from around A\$500 million (USD400 million) to between A\$100 and 200 million (USD80 to 160 million). She explained that some of the key drivers for the revised profit forecast were: a) Lower demand, particularly in premium classes; b) extensive sales and discounting by carriers, in some cases up to 50%; and c) several competitor airlines reducing capacity even though overall international capacity continued to expand.

¶5. (SBU) McKeon enumerated some of the measures Qantas has

taken in response to the economic downturn: Manpower adjustments; cost reductions; raising equity capital; deferral of capital expenditure; reduction and redirection of capacity; retirement of aircraft and deferral of deliveries (Note: Qantas canceled an order for 15 Boeing 787 Dreamliners, saving USD3 billion, and delayed delivery of another 15 for four years. End note.) Qantas' strategic priorities going forward are: To continue the two-brand strategy with its discount carrier Jetstar, which has afforded it flexibility in varying market conditions; product enhancement (premium economy, customer service center, lounges); operational improvement (fleet efficiency, air traffic management, on-time performance, continued focus on safety); improved efficiencies, market segmentation and capital management.

Issues of concern

¶6. (SBU) McKeon mentioned several issues that Qantas will be paying close attention to in the near term:

-- FAA Reauthorization Act of 2009 (HR 915, passed the House, now in the Senate Committee on Commerce, Science and Transportation): The outcome may set a useful precedent for QTransportation): The outcome may set a useful precedent for future Australian legislation on many issues of interest to Qantas, such as regulations requirements regarding antitrust, immunization, quarantine, lost baggage compensation, customs and border security.

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-- Upcoming European Union negotiations on emissions: Under some of the measures being considered, Qantas could face steep long-distance penalties based on its geographic location.

-- GOA's proposed Carbon Pollution Reduction Scheme (CPRS): Under the current plan, Qantas would not receive government subsidies or protection.

-- Upcoming Australia-New Zealand Leadership Forum: McKeon said Qantas is very interested in following the "US-Canada model" in seeking to improve transportation links and the simplification of travel while maintaining effective border security, customs and quarantine standards.

-- Comparative tax treatment: Qantas pays high corporate taxes relative to some of its main competitors in the Asian market, many of which benefit from high government subsidies (Singapore Airlines, Cathay, Emirates, and Etihad).

-- Retaining domestic market dominance: Qantas' two-brand strategy has been successful in facing off other competitors.

-- "Shakeout" in US-Australia routes: Delta's entry, among others, have brought down prices to, in McKeon's view, "unsustainable levels of unprofitability" and looks to see who the ultimate survivors will be.

¶7. (SBU) Comment: Despite a downward revision, Qantas will manage to end the year with profits. The measures taken by the company to deal with the economic downturn, although painful, have largely been successful. We will monitor developments on the above-mentioned issues of concern to Qantas and of interest to the airline industry.